
April 5, 2006



Oversight Review

Defense Hotline Complaint
Concerning Management Issues at
the New York Branch Office
(Report No. D-2006-6-003)

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Acronyms

AICPA	American Institute of Certified Public Accountants
APPS	Audit Planning and Performance System
CAM	Contract Audit Manual
DCAA	Defense Contract Audit Agency
DMIS	Defense Contract Audit Agency Management Information System
DoDIG	Department of Defense Office of the Inspector General
GAS	Government Auditing Standards
GSA	General Services Administration
ISA	Interservice Support Agreement
JTR	Joint Travel Regulations
MOA	Memorandum of Agreement
NYBO	New York Branch Office
PDS	Permanent Duty Station
RAM	Regional Audit Manager
USACE	U.S. Army Corps of Engineers



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APR - 5 2006

MEMORANDUM FOR DIRECTOR, DEFENSE CONTRACT AUDIT AGENCY
REGIONAL DIRECTOR, NORTHEASTERN REGION,
DEFENSE CONTRACT AUDIT AGENCY

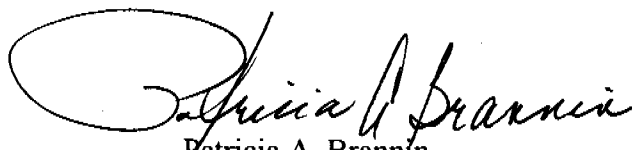
SUBJECT: Evaluation of Defense Hotline Complaint Concerning Management
Issues Regarding the New York Branch Office (Report No. D-2006-6-003)

We are providing this final report for review and comment. We performed this review based on a Defense Hotline complaint. We considered management comments on a draft in preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Defense Contract Audit Agency comments were partially responsive. We request additional comments on Recommendations 1.A, 3.A.1, and 3.A.2. Please provide comments addressing these recommendations by May 1, 2006.

If possible, please send management comments in electronic format (Adobe Acrobat file only). Copies of the management comments must contain the actual signature of the authorizing official. We cannot accept the / Signed / symbol in place of the actual signature.

We appreciate the courtesies extended to the staff. Questions on the review should be directed to Mr. Wayne C. Berry at 703-604-8789 (wayne.berry@dodig.mil) or Ms. Diane H. Stetler at 703-604-8737 (diane.stetler@dodig.mil). See Appendix B for the report distribution.


Patricia A. Brannin
Assistant Inspector General
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Office of the Inspector General of the Department of Defense

Report No. D-2006-6-003
(Project No. D2004-DIP0AC-0038)

April 5, 2006

Hotline Complaint Concerning Management Issues Regarding the New York Branch Office

Executive Summary

Who Should Read this Report and Why? Defense Contract Audit Agency management, U.S. Army Corps of Engineers contracting officers and internal review management who use the Defense Contract Audit Agency reports, and Under Secretary of Defense (Comptroller)/Chief Financial Officer who the Defense Contract Audit Agency reports to.

Background. We conducted this review in response to a Defense Hotline complaint containing four allegations regarding management actions by the Defense Contract Audit Agency at the New York Branch Office. We previously issued two reports addressing allegations regarding this office: Report No. D2004-6-010, "Administrative Inquiry into Allegations Concerning the Defense Contract Audit Agency Alteration of Working Papers at the New York Branch Office," dated October 6, 2003, and Report No. D2005-6-002, "Congressional Inquiry Into Allegations Concerning an Abusive Work Environment at the Defense Contract Audit Agency New York Branch Office," dated March 8, 2005.

Results: Of four allegations, two were partially substantiated and two were not substantiated. The allegation that:

- Defense Contract Audit Agency auditors performing work requested by the U.S. Army Corps of Engineers on the World Trade Center cleanup did not comply with the Government Auditing Standards or audit policies and procedures was partially substantiated;
- the Northeastern region inappropriately filled a permanent GS-13 supervisory auditor position at the branch office with a one-year lateral transfer of a GS-13 technical specialist and then inappropriately backfilled the temporarily vacant GS-13 technical specialist position so that the temporary supervisory auditor would have a position to return to was not substantiated;
- the Northeastern region wasted Government funds when it: (i) established the Garden City site as a Permanent Duty Station; (ii) assigned employees to the work site; (iii) paid the assigned employees local travel costs; and (iv) allowed them to travel on Government time to Manhattan where the branch office and contractors were located, was partially substantiated; and

- a Defense Contract Audit Agency supervisory auditor inappropriately charged time and attendance hours on timesheets was not substantiated.

Although the allegation that the auditors did not use automated working papers and supervision was not properly documented was partially substantiated, the work performed was adequately documented and supervised and supported the information provided in the memorandums and summary report. However, the Defense Contract Audit Agency should revise its Memorandum of Agreement with the U.S. Army Corps of Engineers and existing audit guidance to clarify what non-audit and audit services might be provided in emergency or exigent situations. We also could not conclusively determine whether the Northeastern region management wasted Government funds when it established the Garden City office because they did not adequately document their decision-making process for setting up it up. Therefore, the Northeastern region should re-evaluate the assignment of contractors to the Garden City suboffice and document the considerations for its continued existence. Finally, the Northeastern region analyzed and applied the employee survey results for establishing local commuting radius in a manner inconsistent with the spirit and intent of the Joint Travel Regulations. They should establish separate local commuting areas for the major metropolitan areas in the region.

Management Comments and Department of Defense Office of the Inspector General

Response: The Assistant Director, Policy and Plans, Defense Contract Audit Agency, nonconcurred with the recommendation to revise its agreement because the type of needed audit services for emergency situations are unknown and undefined until they occur. He partially concurred with revising its existing audit guidance on providing audit and non-audit services in emergency situations for the same reason. He proposed revising the existing guidance to require auditors to issue an acknowledgement letter identifying the audit services and related reporting requirements in such situations. We disagree that such services are completely unknown and undefined based on the Agency's experience with catastrophes such as hurricanes. Therefore, we requested that he reconsider his position.

He also nonconcurred with our recommendations to establish policies and procedures specifying criteria and documentation requirements for various types of permanent duty stations and the assignment of personnel because he believed that: (1) the report did not identify the need for additional policies and procedures, and (2) the Northeastern region management articulated a sound business position and exercised its authority in carrying out its mission. The Assistant Director did agree to clarify existing guidance to state that permanent duty stations should be established based on mission requirements. We request that he reconsider his position because he misinterpreted the report regarding our conclusion on the appropriateness of establishing the Garden City office. We did not conclude that the Northeastern region management acted outside of its authority; however, we could not conclusively determine that they made the best decisions because of the lack of proper documentation. Proper documentation is important to management's ability to safeguard Government assets against waste, loss, unauthorized use, or misappropriation.

The Regional Director, Northeastern Region, partially concurred with the recommendation to re-evaluate the assignment of contractors to the Garden City office and document the continued need for it. He stated that the report and the analysis we performed supported the existence of the office, but the Northeastern region management was reviewing the workload of the New York area offices. He also partially concurred with the recommendation to establish local commuting areas for various major metropolitan areas. He agreed to address the issue of the local commuting area in June 2007 when the current collective bargaining agreement is open for renegotiation. We accepted the proposed alternative actions as meeting the intent of the recommendations.

See the Findings section of the report for a discussion of management comments and the Management Comments section for the complete text.

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Background. The Defense Contract Audit Agency (DCAA) performs contract audits and provides financial advisory services for DoD. DCAA audits help determine the adequacy of a contractor's estimating, budgeting, billing, and accounting systems; compliance with the cost accounting standards and disclosed accounting practices; and the allowability of incurred costs charged to the Government in accordance with the Federal Acquisition Regulations and the Defense Federal Acquisition Supplement.

We previously issued two reports addressing allegations regarding the New York Branch Office (NYBO): Report No. D2004-6-010, "Administrative Inquiry into Allegations Concerning the Defense Contract Audit Agency Alteration of Working Papers at the New York Branch Office," dated October 6, 2003, and Report No. D2005-6-002, "Congressional Inquiry Into Allegations Concerning an Abusive Work Environment at the Defense Contract Audit Agency New York Branch Office," dated March 8, 2005.

Review Objective. The objective was to determine the validity of the Defense Hotline allegations. See Appendix A for details of our scope and methodology.

FINDINGS REGARDING ALLEGATIONS

Allegation 1: DCAA auditors performing work requested by the U.S. Army Corps of Engineers (USACE) on the World Trade Center cleanup did not comply with the Government Auditing Standards (GAS) or DCAA audit policies and procedures. The allegation was partially substantiated.

Compliance with DCAA Policies and Procedures and GAS. The complainant specifically alleged that the audit staff performing work on the World Trade Center cleanup effort did not have a set of working papers or audit program in the Audit Planning and Performance System (APPS)¹ format and did not document supervisory guidance or direction as required. The allegation was partially substantiated. The NYBO auditors performed both non-audit services and an agreed-upon procedures engagement for the USACE under one audit assignment. The allegation was not substantiated as it related to the non-audit services performed, but it was substantiated for the agreed-upon procedures engagement they performed. However, the work performed and documented for the agreed-upon procedures engagement contained evidence of supervisory involvement and was sufficient to support the information provided to the USACE in the summary report and memorandums.

Requirements for Performing Non-Audit Services. The allegation was not substantiated because neither the applicable GAS nor the DCAA audit policies in effect in 2001 and 2002 addressed standards for performing non-audit services. The DCAA Contract Audit Manual (CAM) did address the general use of APPS by specifying that auditors should use APPS and a standardized working paper format for all audit assignments; however, it also allowed an auditor to use professional judgment in working paper preparation because conditions and circumstances could vary with each audit.

Performance of Non-Audit Services. The NYBO auditors did not set up an audit assignment in APPS for the non-audit services performed; therefore, they did not use the standard audit working paper structure or format that APPS provided. The auditors had an overall risk assessment that provided a framework for performing the non-audit services; however, they did not have a written review plan. The use of APPS would have provided a standard format for supervisory guidance and review, but the working paper documentation contained evidence of active supervisory involvement. Although the NYBO auditors could have used APPS, the conditions that they encountered in performing the non-audit services justified the decision not to.

Starting in October 2001, the NYBO auditors performed site monitoring and labor and equipment verifications at the Staten Island landfill. They documented their work on note pads because they did not have access to computers; however, they eventually transferred some work to an electronic format. To document the results of their work, they issued “white papers” to the USACE that conveyed potential problems on a real time

¹ APPS is the DCAA electronic working paper software which includes a standard working paper index and set up, standard working paper formats including the incorporation of audit program steps, and documentation of required supervisory review.

basis. The USACE used the “white papers” to improve the efficiency of landfill operations. For instance, DCAA identified a negotiated rate of \$10.06 per hour for using personal vehicles at the landfill. DCAA recommended that the USACE have the contractor identify the need for personal vehicles at the site and, when necessary, lease a vehicle instead of using personally owned vehicles. DCAA estimated a potential savings of approximately \$50,000 on the four vehicles identified. The “white papers” served as minimal documentation for the work that DCAA performed.

Revised GAS. In 2003, the GAS were revised to specify that audit organizations may also provide non-audit services that are not covered by GAS. The GAS do not cover non-audit services since such services are not audits or attestation engagements. However, auditors and audit organizations providing non-audit services need to ensure that providing such services does not impair their independence to provide audit services. DCAA has issued guidance on maintaining auditor independence.

Requirements for Performing Agreed-Upon Procedures Engagement. The allegation regarding use of APPS working papers, including an audit program, and documentation of supervisory guidance was substantiated for the agreed-upon procedures engagement that the NYBO auditors performed. The NYBO auditors reviewed contractor billings as an agreed-upon procedures engagement and issued memorandums to the USACE on the results. They also issued a final summary audit report dated June 16, 2003, on all the work performed. The work performed as an agreed-upon procedures engagement was subject to the applicable GAS and DCAA audit policies and procedures. The GAS and the CAM incorporated the American Institute of Certified Public Accountants (AICPA) standards for agreed-upon procedures that required adequate planning and supervision of any assistants, and sufficient evidence providing a reasonable basis for conclusions expressed in the report. DCAA guidance also specified that a written audit plan was required and provided specific steps the supervisory auditor had to document.

Compliance with Standards. The NYBO auditors did not comply with all the fieldwork and reporting standards for agreed-upon procedure engagements. They inappropriately relied on a risk assessment done for the non-audit services provided because it did not specifically apply to the work performed as agreed-upon procedures engagements. The auditors did not document any other audit planning. The procedures performed could have represented the planned audit steps; however, some procedures were vague and not based on specific measurable criteria as required by the standards. The agreed-upon procedures documentation substantiated the findings and conclusions in the memorandums and final summary audit report, thereby meeting the evidence standards. Finally, the auditors made recommendations in the audit report that were beyond the scope of an agreed-upon procedures engagement.

Compliance with CAM APPS Requirement. For the agreed-upon procedures engagement, the auditors put some working papers in APPS. However, because of the voluminous nature of hard copy documentation, a large number of hard copy files still existed. The auditors used APPS as an electronic filing cabinet to organize the working papers, and therefore, did not use the standard working paper format, such as the standard

indexing and file naming convention. The auditors also did not use the standard APPS format to generate an audit program or to document supervisory guidance and review.

Supervision of Agreed-Upon Procedures Engagement. Once the auditors began performing an agreed-upon procedures engagement, the supervisory auditor was required to supervise them and document the supervision in compliance with both the AICPA standards and DCAA policies and procedures. The AICPA standards require only that assistants should be supervised. DCAA policies and procedures, specifically, CAM, Chapter 2-302.3, "Supervision," Chapter 2-503, "Supervision," and Chapter 4-403, "Format and Contents of the Working Papers," require the supervisory auditor, at a minimum, to initial and date the lead working papers, the top page of the summary working paper section, the top page of the risk assessment/preliminary review section, and the top page of the draft audit report to indicate final review and approval of the work. The agreed-upon procedures working papers did not contain the required supervisory auditor signoffs but did contain limited evidence of supervisory involvement. For instance, the auditors documented that the supervisory auditor attended various meetings with the USACE where contractor billing issues were discussed and participated with them in onsite verification work. The supervisory auditor stated that they also reviewed the supporting documentation for the contractor billings and was onsite when the auditors performed some of the work. In addition, the lead working papers referenced the memorandums, which the branch manager signed. Therefore, even though the documented supervision did not comply with DCAA policy, the supervisors performed sufficient supervision considering the auditors' experience.

Action Taken on Agreed-Upon Procedures Deficiencies. DoD Inspector General Report No. D2004-6-001, "Defense Contract Audit Agency Quality Assurance Review of 'All Other' Audits," dated October 21, 2003, identified similar deficiencies in how DCAA performed and reported on agreed-upon procedures. DCAA concurred with the deficiencies and issued additional guidance and training on July 7, 2004.

Agreement between USACE and DCAA. The existing August 1996 Memorandum of Agreement (MOA) between DCAA and the USACE covers instances when DCAA will provide the USACE with its normal contract audit services for either civilian or military projects. The MOA and CAM 15-118(b) also state that DCAA will provide contract audit support to USACE contracting personnel during civil and military emergencies, disasters, and special operations; however, neither define what services constitute audit support. DCAA has provided the USACE with audit services in emergency situations such as hurricane relief efforts and currently is providing advisory and audit services for Hurricane Katrina. Therefore, since the advisory and audit services provided during emergency or exigent circumstances can be substantially different from the routine DCAA services outlined in the existing MOA, DCAA and the USACE should negotiate a separate addendum to the MOA to cover what additional advisory or audit services DCAA will provide. The addendum should also include the required documentation to support the work and the various reports, such as a final summary report, that the USACE either expects or may request.

Conclusion: The allegation was partially substantiated. The NYBO auditors did not use APPS to perform the non-audit services requested. The work they were performing and the unusual field conditions associated with the work site justified not using APPS. For the agreed-upon procedures engagement, the NYBO auditors made an effort to put the electronic working papers into APPS. Although the NYBO auditors did not use APPS as intended and did not comply with all the applicable fieldwork and reporting standards for the agreed-upon procedures engagement, the work they performed and documented was sufficient to support the information provided to the USACE in the summary report and memorandums. In addition, supervision was not documented for the agreed-upon procedures engagement in accordance with DCAA policy; however, the working papers contained evidence of supervisory involvement. We considered this involvement adequate to meet GAS requirements.

Recommendations, Management Comments, and Department of Defense (DoDIG) Response

Recommendations:

We recommend that the Director, Defense Contract Audit Agency:

1. A. Coordinate with the U.S. Army Corps of Engineers on an addendum to the existing Memorandum of Agreement defining the non-audit and audit services that the Defense Contract Audit Agency may provide, including reporting requirements, in emergency and exigent circumstances. and

DCAA Headquarters Comments: DCAA nonconcurred with the recommendation. They disagreed because: (i) the MOA already contains a provision for providing audit services in emergency and exigent circumstances; (ii) the type of needed audit services are unknown and not defined prior to the occurrence of the emergency situation; (iii) cognizant Government personnel assess the needed audit requirements and request the appropriate audit services based on the specific situation; and (iv) DCAA formally acknowledges the requested audit services as required by existing DCAA policy and procedures. Therefore, DCAA does not believe that additional Government resources should be used to negotiate an addendum to the existing MOA.

DoDIG Response: We request that DCAA reconsider its position. We agree that the exact audit services for emergency and exigent circumstances are unknown and undefined until they occur. However, DCAA has a history of providing contract audit services to the USACE after catastrophes, generally after a hurricane. The initial assessment of the DCAA services to be provided in support of the USACE during the World Trade Center Clean-up was based on these experiences. The same general taskings seem to be involved: billing or invoicing reviews or issues, physical observations of contractor or subcontractor work performance; financial advisory services or analytical reviews to assist contracting officials during negotiations of contract or task order pricing; or reviews of initial contract terms and conditions and contractor management procedures. In some cases, DCAA may also have prior

experience with the contractors or subcontractors. Therefore, DCAA and the USACE can agree that certain audit or advisory services will normally be needed. This agreement would not preclude the USACE from requesting additional services or DCAA from suggesting or providing different audit or advisory services.

More importantly, defining the type of audit or advisory services to be provided includes how the services will be performed. For certain taskings such as physical observation of contractor or subcontractor personnel or equipment, DCAA could decide to perform the work either in accordance with GAS or not. DCAA and USACE management should make this important distinction at the start. In addition, the reporting requirements should also be understood by both parties. While DCAA could report on audit work performed in accordance with GAS either by also following the GAS reporting requirements or not, they could not report work that was not done in accordance with GAS by citing GAS. When emergency situations occur, it is important that these reviews are defined. Therefore, DCAA and the USACE should determine when it is acceptable or expected that DCAA-provided audit services will not comply with GAS versus when the audit services must comply with GAS.

1. B. Clarify existing guidance in the Defense Contract Audit Agency Contract Audit Manual, Chapter 15-118(b) on providing contract audit support to contracting officials of the U.S. Army Corps of Engineers to explain what non-audit, advisory, or audit services can be provided as contract audit support.

DCAA Headquarters Comments: DCAA partially concurred with the recommendation agreeing to revise the pertinent CAM section to require auditors to issue an acknowledgement letter identifying the audit services and relating reporting requirements that would be provided in emergency and exigent situations once the services have been defined and coordinated with the USACE.

DoDIG Response: We accept the proposed DCAA action as meeting the intent of the recommendation. However, the revised CAM guidance should instruct the auditors to clearly state in the acknowledgement letter what DCAA services, including reporting products, will comply with GAS and what DCAA services will not be performed in accordance with GAS.

Allegation 2: The Northeastern region inappropriately filled a permanent GS-13 supervisory auditor position at the NYBO with a one-year lateral transfer of a GS-13 technical specialist. The region then inappropriately backfilled the temporarily vacant GS-13 technical specialist position so that the temporary supervisory auditor would have a position to return to. The allegation was not substantiated.

Selection Process. On November 27, 2001, DCAA issued Job Opportunity Announcement No. 2002-0006 for a GS-511-13 supervisory auditor at the New York Branch Office. The best qualified list contained four names, three non-competitive re-promotion candidates and one promotion candidate. On January 1, 2002, DCAA offered

the job to the promotion candidate who both the Regional Audit Manager (RAM) and the New York Branch Manager recommended. The promotion candidate declined the offer. DCAA then offered the job on January 14, 2002, to the non-competitive candidate determined to be the best qualified of the non-competitive group. However, DCAA subsequently withdrew the offer on January 17, 2002, when the non-competitive candidate accepted an offer for a GS-511-13 technical specialist position at another office. DCAA eventually filled the position when, on January 17, 2002, a NYBO technical specialist volunteered to accept a one-year temporary lateral reassignment to the supervisory auditor position to assist management. The Northeastern Regional Director approved the request for reassignment and DCAA cancelled the job announcement on January 17, 2002.

Management Decision. The decision not to offer the job to the other re-promotion candidates was in accordance with the Personnel Management Manual (DCAAM 1400.1), Chapter 36, “Merit Promotion,” Section 2-10 (e), “Referral of Best Qualified Candidates,” which allowed selecting officials to select any or none of the candidates referred. The Regional Director’s decision to approve the request for reassignment was in accordance with the DCAAM 1400.1, Chapter 37, “Auditor Rotation, Details, and Reassignments,” Section 3-1, “Management-Initiated Reassignments,” which permitted management to direct reassignments of employees to further the DCAA mission. In addition, Section 3–2 (a) allowed an employee, the technical specialist in this case, to request reassignment to enhance their career or for personal reasons.

Temporary Promotion to Technical Specialist Position. The lateral transfer of an existing GS-511-13 technical specialist to the supervisory auditor position then required DCAA to fill the technical specialist position that the temporary supervisory auditor vacated. On January 18, 2002, DCAA issued Job Opportunity Announcement No. 2002-0014 for a temporary, not-to-exceed one-year GS-511-13 technical specialist position at the NYBO. This was in accordance with DCAAM 1400.1, Chapter 36, “Merit Promotion,” Section 4-1 (b), “Temporary Promotions,” which required that DCAA use competitive promotion procedures when a temporary promotion would exceed 120 days. Also, Section 4-1 (a) provided that the most appropriate means of meeting a situation requiring temporary services of 60 days or more, such as when an employee had to perform the duties of another employee during an extended absence, was generally to temporarily promote an employee to the higher grade position.

DCAA management complied with DCAAM 1400.1, Chapter 36, by announcing the technical specialist position through a job opportunity announcement, obtaining a Referral and Selection Register best qualified list, and making a selection. Northeastern region management informed the selected employee of the conditions of the temporary promotion and that they would return to their former position, grade, and step. The temporary promotion was from February 24, 2002, to February 22, 2003. Both the temporary NYBO supervisory auditor and the temporary technical specialist returned to their original positions on February 23, 2003.

Conclusion: The Northeastern region management decision to temporarily fill the supervisory position and, as a result, the technical specialist position was within their authority and in compliance with DCAA Personnel Management Manual. Therefore, the allegation was not substantiated.

Allegation 3: The Northeastern region wasted Government funds when it established the Garden City site as a Permanent Duty Station (PDS) and assigned NYBO employees to the work site. The Northeastern region paid the assigned employees local travel costs and allowed them to travel on Government time to Manhattan where the NYBO and contractors were located. The allegation was partially substantiated.

Downsizing the Northeastern Region. From FYs 1991 to 2004, to adjust to the changing contractor environment, DCAA downsized the Northeastern region by eliminating 16 offices and more than 400 jobs. The number of audit offices in the New York City and Long Island areas went from five to two. The three closed audit offices were on Long Island resulting in the shifting of audit work to the NYBO, located in Manhattan, and the newly formed Long Island Branch Office on the eastern tip of Long Island. DCAA reassigned some auditors who lived on Long Island and had previously worked there to the NYBO, thereby, causing them to face longer commutes into New York City.

New York Branch Office. The NYBO did not have the extra office space needed to accommodate the additional employees. Northeastern region management was also dealing with morale issues among the reassigned employees. Management considered either obtaining additional office space in the existing NYBO location or finding new space on Long Island.

DCAA Management Decisions Regarding Garden City Office. Northeastern region and headquarters management made various decisions regarding the Garden City office space with few policies or procedures specifying appropriate criteria to consider during the decision-making process or requiring adequate documentation of the factors considered during the process. The lack of policies and procedures and documentation supporting management decisions is an internal control issue.

Comparison of Lease Costs for Two Options. Based on available leasing cost information, the Northeastern region management decision to lease the Garden City office space was the least costly alternative considered. However, because the Northeastern region management did not properly document the various cost considerations including potential travel costs, we were unable to determine whether leasing the Garden City site was appropriate based on the information actually considered at the time. Northeastern region management told us that they considered both the cost per square foot and auditor travel expenses when comparing the two options to obtain the 1200 square feet of additional office space. Although Northeastern region management discussed the options, they did not document the basis for making their decision. For instance, they could not provide the auditor travel expense information used in making

the decision. The Facilities Manager, Northeastern region, also discussed the potential increase in lease costs, should additional space be required for the NYBO, but did not obtain written quotes from the General Services Administration (GSA). The yearly lease costs for the Garden City site averaged \$17.95 per square foot for an average annual cost of \$21,540. The NYBO yearly lease costs averaged \$25 per square foot for an average annual cost of \$30,000. Even if the NYBO average rate per square foot remained unchanged, the cost of the additional 1200 square feet would have been \$8,460 per year higher than comparable space at the Garden City site. However, since the GSA, Realty Services Division, handled the NYBO leased space, when an existing tenant needed additional space, the square foot rate for both the existing and the additional space would be re-calculated to factor in the current square foot rate effectively increasing the cost per square foot for all leased space.

Establishment of the Garden City Work Site. Northeastern region management told us that they decided to lease space on Long Island because it would not only cost less than adding to the NYBO office space but would also improve employee morale for those employees living on Long Island. Furthermore, their main customer, the Defense Contract Management Agency, was located in Garden City. In September 2000, Northeastern region management signed a 4-year lease effective October 1, 2000, for the Garden City space. Northeastern region management initially discussed the Garden City site as a telecommuting center, but the RAM ultimately established the site as a PDS. In January 2001, the Northeastern region assigned eight NYBO employees to Garden City as their PDS. The Office of Personnel Management allowed the employing agency to determine an employee's PDS; however, neither the DCAA Organization Manual (DCAAM 5110.1) nor any other DCAA policy specified the criteria managers should use to establish a PDS or assign employees to one.

Interservice Support Agreement. The Northeastern region used an Interservice Support Agreement (ISA) between DCAA and the U.S. Marine Corps to pay the rent for the Garden City space. The Northeastern region had nine ISAs in use during FY 2004 for a total cost of \$905,253. The Garden City ISA totaled \$17,071, or 2 percent of the regional total. The majority of the ISAs were for office space in overseas locations. The Regional Director or the Regional Resources Manager signed the majority of the ISAs. Neither DCAA headquarters nor the Northeastern region had any guidelines regarding ISA usage.

Frame Relay Systems. In December 2000, the Northeastern region requested a frame-relay system for the Garden City office. A frame-relay is a local-area network system that allows auditors to access the DCAA intranet when they log on without dialing up the connection. DCAA headquarters paid the \$5,000 to \$6,000 cost for each system. However, in FY 2000, DCAA headquarters had no written process or set criteria for approving frame-relay service requests. By May 2002, DCAA had installed the frame relay service at the Garden City office. In November 2003, the Director, DCAA, detailed a process and set a minimum criteria to ensure that only offices expected to remain at the

same physical location for at least a year and with a staff of four or more non-mobile² employees would be approved for the service. In April 2005, DCAA headquarters revised the criteria requiring employees to spend only the preponderance of their time at the location instead of being non-mobile. With the revision, the Garden City office met the April 2005 criteria.

Establishment of the Garden City Suboffice. In August 2003, 2 years and 8 months after DCAA had assigned employees to Garden City as a PDS, the Northeastern Region Career Management Board met and officially recommended that Garden City be established as a suboffice based on the current and projected workloads. They also recommended assigning auditors to the suboffice already assigned to the Garden City PDS. The Northeastern region submitted a request to DCAA headquarters for the official suboffice name to be created on September 17, 2003.

The DCAA Organization Manual defined a suboffice as a satellite of its parent branch or resident office, set up by the regional director, to perform contract audit services at a smaller contractor location(s) with sufficient auditable contract work. The DCAA Organization Manual provided criteria to use in naming a suboffice. Regional management was required to tell DCAA headquarters the proposed suboffice name, the effective date for the suboffice activation, and any other information that headquarters requires to set the suboffice up in the DCAA Management Information System (DMIS). Regional management also had to provide any information that headquarters needed when headquarters was required to perform personnel or finance actions. A November 2004 revision to the DCAA Organization Manual gave examples of when a suboffice could be established but assigned the actual responsibility for defining when a suboffice could be established to the regions.

Documentation Supporting Establishment of Suboffice. Neither DCAA headquarters nor the Northeastern region required that specific documentation be provided or maintained to support the establishment of a suboffice. Neither office could provide requested supporting documentation, such as a cost-benefit analysis, to justify the establishment of the Garden City suboffice. The NYBO did provide a listing of contractors assigned to the Garden City suboffice; however, the contractors had New York City addresses. The Northeastern region had assigned contractors with Garden City addresses to the Long Island Branch Office. The Northeastern region should revisit the alignment of the Garden City office and the assigned contractors and adequately document the basis for the decision made.

Establishment of Local Commuting Area. Article 15.12.E of the Collective Bargaining Agreement between the Northeastern region and the American Federation of Government Employees Council of Defense Contract Audit Agency Locals, #163 (Union) defined the local commuting area for all Northeastern region audit offices as 22 miles from an employee's PDS. The Northeastern region established the 22-mile radius through collective bargaining and a formal survey. The Resources Manager,

² A non-mobile employee is expected to perform the majority of their work at the PDS, usually a contractor site.

Northeastern region, explained that a 1991 survey of all DCAA Northeastern region employees' commuting distances from the employees' residence to their PDS resulted in 22 miles as the average local commute. According to the DoD Civilian Personnel, Joint Travel Regulations (JTR), Part H, "Local Travel In and Around Permanent or TDY Location," the local commuting area could be:

- the metropolitan area around the PDS that is ordinarily served by local common carriers;
- boundaries as determined by the official directing travel or as prescribed by a local Service/Defense Agency directive; or
- separate cities, towns, or installations next to or close to each other, within which the commuting public travels daily during normal business hours.

The Northeastern region approach appeared to be based on the second method. However, Northeastern region management would only state that because they used collective bargaining and a formal survey to establish the 22-mile radius, their method met the additional criteria established by a Comptroller General case requiring that the distance radius not be arbitrarily established. The Northeastern region management followed a logical process to collect information to help it determine the local commuting area. However, it analyzed and applied the information in a manner that, while not a clear violation of the JTR, was inconsistent with its spirit and intent. The JTR prescribed that a local commuting area be established for a particular installation or metropolitan area. The Northeastern region covers eight states from Maine to New York and includes Michigan. Therefore, the Northeastern region management should have evaluated each major metropolitan area to determine a reasonable commuting radius based on the area served by local common carriers or the area within which people commute daily. The applicability of the 1991 survey results also was questionable because of the length of time since the Northeastern region conducted it and the elimination and realignment of offices. Northeastern region management needs to establish reasonable local commuting areas specific to the major metropolitan locations where its offices are located.

Local Travel Reimbursement. The allegation specified that Garden City employees claimed and received local travel reimbursement to the NYBO and contractors located in Manhattan rather than the commuter subsidy that would have been paid had the employees been assigned to the NYBO. The allegation was substantiated. The establishment of Garden City as a PDS directly impacted how the Northeastern region reimbursed the assigned auditors' local travel costs. The JTR provided that an agency should reimburse local travel expenses for travel within the local commuting area of the PDS. The Collective Bargaining Agreement required the Northeastern region to reimburse employees for the full mileage between the employee's residence and the alternative duty point when the alternative duty point was outside the local commuting area of the PDS. It does not specifically address reimbursement for use of public transportation in these situations.

The NYBO was 27 miles from the Garden City office; therefore, the NYBO was outside the 22-mile radius local commuting area. Accordingly, employees were able to claim

local travel reimbursement for all mileage and any public transportation costs associated with daily travel from their homes to the NYBO. If the Northeastern region had assigned the employees to the NYBO and if they had otherwise met the eligibility requirements, then they would have only received the commuter subsidy available under the DoD Transportation Incentive Program for the commute to the NYBO. The Northeastern region would have reimbursed any local travel costs from the NYBO to a contractor separately.

Actual Local Travel Reimbursement. In total, DCAA reimbursed seven employees \$6,400 in FY 2002, and nine employees \$6,600 in FY 2003, for travel between their homes and the NYBO in Manhattan, and to and from contractor locations. The majority of Garden City office employees received local travel payments that averaged from \$17 to \$50 per month, which is less than the commuter subsidy. Only one employee's \$250 average monthly local travel expense was in excess of the \$100 monthly commuter subsidy.

During FYs 2002 and 2003, the employee with the highest reimbursed local travel expense held two different positions, a technical specialist and a temporary supervisory auditor. As described in Allegation 2, the Regional Director approved the temporary lateral reassignment of the employee to a temporary supervisory auditor position in January 2002. The job announcement specified the duty station as New York City; however, as a condition of accepting the reassignment, the employee requested that their PDS remain Garden City. Because the Northeastern region assigned the temporary supervisory auditor to the Garden City PDS, the Collective Bargaining Agreement³ allowed them to claim local travel reimbursement for travel from their home to the NYBO. The travel claims included mileage and public transportation costs. While assigned as a temporary supervisory auditor in CY 2002, they claimed \$2,427, double the yearly commuter subsidy of \$1,200.

The RAM acted within their authority when they decided to allow the employee to retain Garden City as their PDS; however, the RAM never documented their decision explaining why spending the extra travel funds was reasonable or necessary. Without such documentation, the Northeastern region has limited its ability to later review the RAM decision or to respond to grievances from other employees desiring the same or similar accommodation.

Travel on Government Time. The allegation implied that establishment of the Garden City work site allowed the employees to perform more travel on Government time than if Northeastern region management had assigned them to the NYBO. We could not determine whether Garden City employees' travel time was excessive because, in accordance with the Collective Bargaining Agreement, the auditors charged travel time to the audit assignment and that time could not be segregated from the total audit assignment hours. The Collective Bargaining Agreement specified that for local travel

³ The Northeastern region management has decided to make certain provisions of the Collective Bargaining Agreement applicable to all employees.

and as much as practical, Northeastern region management will not require employees to travel on their own time in excess of their normal commuting time.

Conclusion: The allegation was partially substantiated. DCAA did not have any policies or procedures that specified the criteria for establishing each type of PDS. Current DCAA policies and procedures also do not require management to document the reasons, including any cost/benefit analysis, for establishing a PDS at a specific facility. DCAA also does not have policies or procedures specifying criteria for management to determine when to assign an employee to a particular PDS. When regional management establishes a PDS and assigns employees to it, the costs to the region involve far more than the annual office space rent; therefore, DCAA should have guidance to assist managers in making the decisions.

Recommendations, Management Comments, and DoDIG Response

Recommendations:

3. A. We recommend that the Director, Defense Contract Audit Agency, establish policies and procedures:

- 1. Specifying the criteria and documentation required to establish each type of permanent duty station, and**
- 2. Governing the assignment of employees to a specific permanent duty station, including the criteria to consider and appropriate documentation requirements for unusual situations.**

DCAA Headquarters Comments: DCAA partially concurred with recommendation 3.A.1 and nonconcurred with recommendation 3.A.2. DCAA does not believe that the report identified the need for additional policies and procedures and the Northeastern region management articulated a sound business position and exercised its authority in carrying out its mission. They did agree to add additional language to the DCAA Organization Manual to clearly state that a PDS should be established based on mission requirements.

DoDIG Response: We request that DCAA reconsider its position on both recommendations. DCAA quoted a draft report conclusion out of context to support its position that the need for additional policies and procedures was not identified in the draft report. Therefore, we have added a sentence to the section entitled, "Comparison of Lease Costs for Two Options," (page 8) to clarify that we could not determine whether the decision made at the time was appropriate because the Northeastern region management did not properly document its decision. We expended considerable time gathering information that was only available verbally from some DCAA management officials. In this situation, documents written at the time the decision was being made would have been a better evidentiary source for our review. We did not conclude that the Northeastern region management acted outside of its authority; however, we cannot conclusively determine that they made the best decisions.

DCAA should require its managers to document their decisions especially when Government funds are being expended. The Northeastern region management decision to establish the Garden City PDS affected the morale, the efficiency, and the effectiveness of auditors working out of the New York area offices. These decisions involved Government resources, specifically funds and personnel. Government managers are required to safeguard Government resources (funds, property, and other assets) against waste, loss, unauthorized use, or misappropriation as part of the overall requirement of internal control. The Office of Management and Budget has re-emphasized management's responsibilities for internal control as required by the Federal Manager's Financial Integrity Act of 1982 by revising its Circular A-123, "Management's Responsibility for Internal Control," dated December 21, 2004. Without proper documentation, DCAA management cannot ensure that its managers are safeguarding the assets assigned to them. In addition, DCAA would expect a contractor to have written documentation to support a decision to lease office space. Therefore, DCAA should revise its existing policies and procedures to require its managers to properly document decisions supporting the establishment of a PDS and assignment of personnel to it.

3. B. We recommend that the Director, Northeastern Region, Defense Contract Audit Agency:

- 1. Re-evaluate the assignment of contractors to the Garden City suboffice and document the considerations for its continued existence, and**
- 2. Establish separate local commuting areas for the various major geographic locations in the region containing audit offices.**

DCAA Northeastern Region Comments: The Regional Director, Northeastern Region, DCAA, partially concurred with both recommendations. For recommendation 3.B.1, DCAA believes that our report is sufficient documentation and support for its decision to establish the Garden City PDS, therefore, additional documentation would not be value-added. DCAA has agreed to review the workload assigned to the Garden City suboffice. For recommendation 3.B.2, DCAA disagreed that they applied the information gathered on the local commuting area arbitrarily and in a subjective manner; however, they have agreed to attempt to renegotiate the local commuting areas with the Union when the existing collective bargaining agreement expires in June 2007.

DoDIG Response: We accept the DCAA proposed actions as meeting the intent of the recommendations. We have revised the report section, "Establishment of Local Commuting Area," (page 10) to incorporate legal advice recently received from our Office of General Counsel that characterized the DCAA use of its local commuting area survey information as not meeting the spirit and intent of the JTR.

Allegation 4: A DCAA supervisory auditor inappropriately charged time and attendance hours on timesheets. The allegation was not substantiated.

Time Charging Pattern. The supervisory auditor alternately worked credit hours and took credit hours during most pay periods in FY 2002. The DCAA Personnel Management Manual and the Collective Bargaining Agreement allowed employees to

work credit hours and accumulate and carry over up to 24 hours from one pay period to the next. An employee could use credit hours to fill the basic work requirement of 80 hours in a pay period. Therefore, the accrual and use of credit hours by the technical specialist/supervisory auditor was in accordance with the DCAA Personnel Management Manual and the Collective Bargaining Agreement.

Time Charged to Indirect Travel Code. The complainant alleged that a supervisory auditor inappropriately charged time to a travel time code. The allegation was not substantiated. During FY 2002, the technical specialist/supervisory auditor charged only 4 hours to the travel time code. The individual charged the time while working as a technical specialist prior to the assignment as a supervisory auditor. The Collective Bargaining Agreement directed auditors, which includes technical specialists, to charge travel time to audit assignments; however, auditors were to charge the time to perform certain general functions such as the completion of travel vouchers, to an indirect time code. Therefore, the individual properly charged the 4 hours of travel time in compliance with the Collective Bargaining Agreement.

Overtime. The allegation stated that a supervisory auditor received overtime pay for work performed for another branch office. The allegation was not substantiated. The individual's FY 2002 timesheets and a summary DMIS report on overtime and compensatory time earned during FYs 2002 and 2003 showed that the individual did not claim or earn overtime or compensatory time during the time periods.

Conclusion: The allegation was not substantiated. The supervisory auditor did not improperly charge travel time on their timesheets in FY 2002. The same individual did not charge overtime hours during FYs 2002 or 2003.

Appendix A. Scope and Methodology

We evaluated records maintained by headquarters, DCAA, the Northeastern region, and the Defense Finance and Accounting Service to determine the validity of the allegations. We also interviewed DCAA managers and employees at headquarters, DCAA, the Northeastern region, and the NYBO. Specifically, we

- determined the applicable accounting standards, public laws, DoD and DCAA regulations, directives, and instructions;
- reviewed the World Trade Center assignment working paper files (Assignment No. 2211-2002T17900001), both electronic and hard copy files;
- reviewed the selection process and applicable files for the NYBO supervisory auditor and technical specialist positions;
- obtained official supporting documentation from personnel files maintained by Defense Finance and Accounting Service;
- reviewed documentation maintained by the Northeastern region in support of management decisions regarding the Garden City suboffice;
- reviewed time charging information obtained from the DMIS; and
- reviewed local travel reimbursement claims for NYBO employees assigned to the Garden City location.

We performed the review from November 2003 through February 2006.

Appendix B. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)/Chief Financial Officer

Other Defense Organizations

Director, Defense Contract Audit Agency
Regional Director, Northeastern Region

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Efficiency and Financial Management, Committee
on Government Reform
House Subcommittee on National Security, Emerging Threats, and International
Relations, Committee on Government Reform
House Subcommittee on Technology, Information Policy, Intergovernmental Relations,
and the Census, Committee on Government Reform

Defense Contract Audit Agency Comments



DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
8725 JOHN J. KINGMAN ROAD, SUITE 2135
FORT BELVOIR, VA 22060-6219

IN REPLY REFER TO

PQA 225.4 (D2004-DIPOAC-0038)

March 3, 2006

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDIT POLICY AND
OVERSIGHT, OFFICE OF THE INSPECTOR GENERAL,
DEPARTMENT OF DEFENSE

SUBJECT: Response to Draft DoDIG Report on Defense Hotline Complaint Concerning
Management Issues at the New York Branch Office (Project No.
D2004-DIPOAC-0038)

Thank you for the opportunity to respond to the draft report. The subject report is being issued based on a review performed in response to a DoD Hotline complaint on alleged management issues regarding the Defense Contract Audit Agency (DCAA) New York Branch Office (NYBO). As noted in the draft report, of the four allegations, two were not substantiated and two were partially substantiated. Our comments and position relating to each of the recommendations are detailed below and in the attached memorandum from the Northeastern Regional Director, dated March 3, 2006.

1. Allegation 1: DCAA auditors performing work requested by the USACE on the World Trade Center cleanup did not comply with the GAS or DCAA audit policies and procedures. The allegation was partially substantiated.

1.A. DoDIG Recommendation: We recommend that the Director, Defense Contract Audit Agency coordinate with the U.S. Army Corps of Engineers on an addendum to the existing Memorandum of Agreement defining the non-audit and audit services that the Defense Contract Audit Agency may provide, including reporting requirements, in emergency and exigent circumstances.

DCAA Response: Nonconcur. As stated in the DoDIG draft report, the current MOU already contains a provision for providing audit services in emergency and exigent circumstances. Paragraph 4.b(7) states, "DCAA will also provide contract audit support to Corps contracting personnel during civil and military emergencies, disasters and special operations." Since these services are provided based on emergency and exigent situations, the type of needed audit services are unknown and not defined prior to the occurrence of the emergency situation. Once the situation occurs, the cognizant government personnel assess the needed audit requirements based on the specific situation. Generally, the cognizant contracting officials request the needed audit services

PQA 225.4 (D2004-DIPOAC-0038)

March 3, 2006

SUBJECT: Response to Draft DoDIG Report on Defense Hotline Complaint Concerning Management Issues at the New York Branch Office (Project No. D2004-DIPOAC-0038)

and DCAA would formally acknowledge those services. We believe these actions (i.e., formal acknowledgement of the requested audit services) are the procedures employed under existing Agency policy (DCAA Contract Audit Manual Section 4-100) and we do not believe there is a need to expend additional government resources in negotiating an addendum to the MOU with the USACE. We do agree to include additional language in our DCAA Contract Audit Manual as stated in our response to the DoDIG recommendation 1.B.

1.B. DoDIG Recommendation: We recommend that the Director, Defense Contract Audit Agency clarify existing guidance in the Defense Contract Audit Agency Contract Audit Manual, Chapter 15-118(b) on providing contract audit support to contracting officials of the U.S. Army Corp of Engineers to explain what non-audit, advisory, or audit services can be provided as contract audit support.

DCAA Response: Partially concur. As stated above, the DCAA audit or nonaudit services provided under an emergency situation are not defined until the impact of an emergency situation is assessed and the appropriate government personnel establish the needed audit requirements. As stated above, current Agency policy requires auditors to formally acknowledge the request for audit services. However, to address the DoDIG's concern, we will add language to CAM 15-118(b) to require auditors to issue an acknowledgment letter identifying the audit services (and related reporting requirements) that will be provided in emergency and exigent situations once the services have been defined and coordinated with the USACE.

2. Allegation 3: The Northeastern region wasted Government funds when it established the Garden City site as a Permanent Duty Station (PDS) and assigned NYBO employees to the work site. The Northeastern region paid the assigned employees local travel costs and allowed them to travel on Government time to Manhattan where the NYBO and contractors were located. The allegation was partially substantiated.

DoDIG Recommendations:

3. A. We recommend that the Director, Defense Contract Audit Agency establish policies and procedures:

1. Specifying the criteria and documentation required to establish each type of permanent duty station, and
2. Governing the assignment of employees to a specific permanent duty station, including the criteria to consider and appropriate documentation requirements for unusual situations.

DCAA Response to DoDIG recommendation 3.A.1: Partially concur. We do not believe the DoDIG has identified the need for additional policies and procedures. It should be

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noted that based on the DoDIG report, the portion of the allegation that the Northeastern region wasted Government funds was not substantiated. As stated on page 7 of the draft report, "Based on available leasing cost information, the Northeastern Region management decision to lease the Garden City office space was the least costly alternative considered." We believe Northeastern regional management articulated a sound business position for its decision to allow the employees to travel into Manhattan to perform mission requirements. Northeastern regional management exercised its authority in carrying out its management decisions. Therefore, we do not believe that a need for establishing more defined criteria for establishing a PDS has been identified by the DoDIG. Permanent duty stations are established based on DCAA mission requirements and cost effectiveness. As the DoDIG states in its report, the Office of Personnel Management allows the employing organization to determine an employee's PDS. The cognizant Regional Director/Head of Principal Staff Element has been delegated this authority to make this management decision to accomplish the audit mission in the most efficient manner. This decision is clearly documented on the SF 52. We believe that Regional Directors/Head of Principal Staff Elements should have the ability to make decision on responsibilities that they are delegated (such as assigning employees to specific permanent duty stations) and determining the extent of additional documentation needed besides the SF 52. The reevaluation of Field Audit Offices, suboffices and permanent duty stations are performed as a continuing process based upon audit workload and efficient use of resources. Although we do not agree on the need for additional policies and procedures, to address the DoDIG's concerns, we will add additional language to the Defense Contract Audit Agency Organization Manual (DCAAM 5110.1) to clearly state Agency policy (i.e., PDS is established based on mission requirements).

DCAA Response to DoDIG recommendation 3.A.2: Nonconcur. As stated above, we do not believe the DoDIG has identified the need for additional policies and procedures. We believe the Northeastern regional management articulated a sound business position and exercised its authority in carrying out its management decisions. Permanent duty stations are established based on DCAA mission requirements and cost effectiveness. Regional Directors and Heads of Principal Staff Elements should exercise their delegated authority and document what they determine reasonable based on the circumstances.

DoDIG Recommendations:

3. B. We recommend that the Director, Northeastern Region, Defense Contract Audit Agency:

1. Re-evaluate the assignment of contractors to the Garden City suboffice and document the considerations for its continued existence, and
2. Establish separate local commuting areas for the various major geographic locations in the region containing audit offices.

PQA 225.4 (D2004-DIPOAC-0038)

March 3, 2006

SUBJECT: Response to Draft DoDIG Report on Defense Hotline Complaint Concerning
Management Issues at the New York Branch Office (Project No.
D2004-DIPOAC-0038)

DCAA Response: Partially concur. Refer to the attached memorandum from the Director,
Northeastern Region for their response.

Questions regarding this memorandum should be directed to Mr. Ken Saccoccia, Chief,
Quality Assurance Division, at (703) 767-2298.

Sincerely,

/Signed/
Earl J. Newman
Assistant Director
Policy and Plans

Enclosures:
Northeastern Region Response Dated March 3, 2006



K:\225 EXTERNAL
INSPECTIONS & INVE



NORTHEASTERN REGION
DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
59 COMPOSITE WAY, SUITE 300
LOWELL, MASSACHUSETTS 01851-5150

IN REPLY REFER TO:
RQA-2 225.4

March 3, 2006

MEMORANDUM FOR THE DIRECTOR, DCAA

ATTENTION: PQA

SUBJECT: Comments on the Draft DoD IG Report on the Defense Hotline Complaint Concerning Management Issues Regarding the New York Branch Office (Project No. D2004-DIPOAC-0038)

The subject draft report provides the results of the DoD IG's Defense Hotline Complaint review of the New York Branch Office. Our response to the individual report findings and recommendations applicable to the Northeastern Region follow:

IG Finding 3. B. 1: The Northeastern Region should revisit the alignment of the Garden City office and the assigned contractors and adequately document the basis of the decision made.

Recommendation: Re-evaluate the assignment of contractors to the Garden City Suboffice and document the consideration for its continued existence.

DCAA: Partially Concur. We disagree with the assertion in the finding of our lack of documentation in support for the continued existence of the Suboffice. We believe that the DoD IG has performed sufficient analysis to support the existence of the Suboffice and anything we would do in that regard would not add any value. We note that on Page 7 of the draft report it states, "Based on available leasing cost information, the Northeastern Region management decision to lease the Garden City office space was the least costly alternative considered". We agree with the IG's recommendation to revisit the assignment of contractors to the Garden City office. We are presently reviewing the workload of both the Long Island Branch Office and the New York Branch Office to assure that the assignment of workload includes the consideration of customer needs, ease in identifying each Branch's boundary and assuring the most cost effective and efficient operating plan is implemented.

IG Finding 3. B. 2: The Northeastern Region management needs to establish reasonable commuting areas specific to the major metropolitan locations where its offices are located. Although the Northeastern Region management followed a logical process to collect information to help it determine the local commuting area, it analyzed and applied the information in an arbitrary or subjective manner.

Recommendation: Establish separate local commuting areas for the various major geographic locations in the Region containing audit offices.

Pages 8
Added

Revised

RQA-2 225.4

March 3, 2006

SUBJECT: Comments on the Draft DoD IG Report on the Defense Hotline Complaint
Concerning Management Issues Regarding the New York Branch Office
(Project No. D2004-DIPOAC-0038)

DCAA: Partially Concur. We disagree with the assertion in the finding that the information collected on the local commuting area was applied arbitrarily and in a subjective manner. The process applied was agreed to between Northeastern Region management and the American Federation of Government Employees Council of Defense Contract Audit Agency Locals, #163 (Union), and has been reviewed and upheld by the Defense Civilian Personnel Management Service (DCPMS) over numerous Collective Bargaining Agreements, including the current one in effect. As stated in the draft report, "Article 15.12.E of the Collective Bargaining Agreement between the Northeastern Region and the American Federation of Government Employees Council of Defense Contract Audit Agency Locals, #163 (Union) defined the local commuting area for all Northeastern Region employees as 22 miles from an employee's PDS." Northeastern Region is required to follow the provisions of their Collective Bargaining Agreement (CBA) that was approved by DCPMS on June 14, 2004. The DCPMS review determined that the negotiated provisions were in accordance with law and Government-wide regulation. The CBA remains in force for three years. On or about June 14, 2007, the Northeastern Region will attempt to renegotiate "local commuting areas" consistent with the above recommendation.

Should you have any questions, please contact Mr. Ramon DeJesus, RQA-2, at (212) 620-6441, or Mr. Ron Meldonian, Regional Audit Manager, at (978) 551-9710.

Edward F. Nelson

Edward F. Nelson
Regional Director

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